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Comptroller of the Currency
Administrator of National Banks

INQUIRY INTO CERTAIN MATTERS
RELATING TO T. BERTRAM LANCE
AND VARIOUS FINANCIAL INSTITUTIONS

August 18, 1977

Volume 1



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Comptroller of the Currency
Administrator of National Banks

Washington, D. C. 20219

August 18, 1977

Honorable Abraham A. Ribicoff
Chairman
Committee on Governmental Affairs
United States Senate
Room 337, Russell Office Building
Washington, D. C. 20510

Dear Mr. Chairman:

On July 12, 1977 when I assumed office as Comptroller of the Currency, I was aware of allegations from various quarters that T. Bertram Lance, Director, Office of Management and Budget, prior to his assumption of that office, may have committed infractions of laws or regulations relating to national banks. An inquiry was begun by my office into these allegations on July 14, 1977 and the Secretary of the Treasury was so informed. On July 21, 1977 the Secretary told me that the President expected me to take such action as was appropriate to carry out the responsibilities of my office.

Prior to the hearing of your Committee on July 25, 1977, at which Mr. Lance testified, you inquired as to the actions the Office of the Comptroller was taking concerning such allegations. I informed you that I had initiated an inquiry into such allegations, and you asked to be supplied with the results of that inquiry as promptly as practicable. That request was confirmed at the July 25, 1977 public hearing of the Committee. Subsequently, I have received requests for a report from the Chairmen and the ranking minority members of the U. S. Senate Committee on Banking, Housing and Urban Affairs and the Committee on Banking, Finance and Urban Affairs of the U. S. House of Representatives. I have also received requests for specific information from several other members of the Congress.

As you know, the general responsibility of this Office is to supervise the activities of, and to enforce the laws and regulations relating to national banks. The Office has no authority to prosecute violations of criminal statutes or to enforce the laws that do not relate to national banks. Prior to becoming Director of the Office of Management and Budget, Mr. Lance had served as an executive of two national banks, The National Bank of Georgia and The Calhoun First National Bank. Since the allegations involved activities relating to these two national banks, the Comptroller clearly had a duty to make an appropriate inquiry. In order to produce a report within a reasonable time, this inquiry has covered principally the period since January 1975. I also want to stress that it has not dealt with matters which fall outside of the general jurisdiction of this Office, that is, matters that do not relate to national banks.

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for Preservation Purposes**

This report has been compiled from the files of this Office, extensive examination of the records of banks through the use of this Office's bank examination process, and depositions under oath of a number of individuals. Assistance was rendered by several other state and federal banking agencies. As you know, there are statutory restrictions on the public disclosure of material from bank examinations. Mr. Lance has informed me that he has no objection to the public release of any information relating to him. However, questions about the rights of privacy of other individuals are raised by some portions of this inquiry and the propriety of the public release of information previously supplied to the Department of Justice. Accordingly, this report has been divided into (i) an extensive summary of the data generated by the inquiry and certain conclusions that the Office has drawn from the data, and (ii) exhibits consisting of copies of documents that provide the basis for the statements in the summary.

To accommodate unique circumstances here involved, we have attempted to write the summaries so that their public release would not unacceptably compromise the privacy of individuals or raise any question about the release of bank examination material. While none of the exhibits raises any substantial question concerning the solvency or condition of any bank, you and the Chairmen of the other Committees to whom I am transmitting copies of this report may wish to review the exhibits to determine whether the benefits from their public release outweigh individuals' rights to privacy and the general principles protecting bank examination material from public release. In addition, we are not transmitting to you at this time transcripts of depositions taken and copies of material previously transmitted to the Department of Justice on December 24, 1975. Should you desire such material, I will be glad to undertake arrangements to make it available to you.

While we have endeavored to complete this inquiry expeditiously, the following areas remain to be concluded.

(i) It became clear to me in the first days of this inquiry that certain parts of the inquiry involved questions as to whether employees of this Office had correctly followed the internal rules and regulations of our Office and of the Department of the Treasury and as to whether they had properly performed their responsibilities. Accordingly I requested the assistance of the Secretary of the Treasury, to whom this Office is responsible, since I felt an inquiry into this subject could not properly be conducted by personnel of this Office. On July 18, 1977 the Secretary directed the Assistant Commissioner for Inspection of the Internal Revenue Service to conduct such an inquiry under my general supervision. The Inspection Service has had extensive experience in conducting such inquiries, and I am informed that the Department of the Treasury has followed this procedure in the past in analogous situations. The results of this inquiry will not be available for several weeks, but I have no reason to believe it will reveal any violation of any applicable law or regulation by Mr. Lance not covered by this report.

(ii) Allegations have been made that The National Bank of Georgia may not have adequately controlled the accounts relating to owned or leased aircraft in the period from February 1975 to the present. The inquiry thus far conducted (which has included examination of available records and deposition of one witness) has not progressed to a point where any conclusions may properly be drawn.

(iii) In the course of this inquiry thus far, it has not been possible to resolve all matters that have come to the attention of this Office, particularly where they relate to periods prior to 1975. We expect to pursue as appropriate all open matters but I did not believe it desirable to delay reporting on those areas which I believe have been the focus of your Committee.

In addition to the conclusions stated in the body of the report, I believe that it might be helpful to add a few general comments:


- (1) We do not believe the information developed to date in the inquiry warrants the prosecution of any individuals. ✓
- (2) It is clear from the summary of information that Mr. Lance made his principal borrowings from banking institutions which had a correspondent relationship, including deposit balances, with the banks in which Mr. Lance served as officer and director. This recurring pattern of shifting bank relationships and personal borrowing raises unresolved questions as to what constitutes acceptable banking practice. The Office intends to address the question of whether its regulations under the Securities Exchange Act of 1934 or under other statutes should be amended to require public disclosure of such practices or other remedial action. =
- (3) The report recites that the management of The Calhoun First National Bank from 1972 to 1975 permitted officers, directors, some employees, and their families to overdraw checking accounts in substantial amounts for considerable periods of time. In the case of the Lance for Governor Campaign account, the facts were referred to the Department of Justice on December 24, 1975. On December 2, 1975, the Office entered into an agreement pursuant to the Financial Institutions Supervisory Act of 1966 with the board of directors of Calhoun which, among other things, required management to cease permitting insiders to maintain overdrafts. The questionable overdraft practices were corrected in compliance with the agreement. The agreement itself was terminated by the Regional Administrator on November 22, 1976.
- (4) As is developed fully in this summary, Mr. Lance did not file with the banks of which he was an officer certain reports of outside business interests and personal borrowing and of borrowing by his affiliates as required by statute or regulation in the years covered in this inquiry. If Mr. Lance were still with the banks, the normal action of this Office would be to direct that the reports forthwith be filed.

I look forward to continued cooperation with you and your Committee, as well as the other interested Committees of the Congress, in this matter. If there is any way you feel this Office can be of assistance to you in your deliberations, I know you will call on us.

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For your information, in addition to the copies of this report being furnished you and your ranking minority member, Senator Percy, I am also supplying copies to the Chairmen and ranking minority members of the U. S. Senate Committee on Banking, Housing and Urban Affairs and of the Banking, Finance and Urban Affairs Committee of the U. S. House of Representatives.

Sincerely,


John S. Heilmann
Comptroller of the Currency

Enclosure

INQUIRY INTO CERTAIN MATTERS
RELATING TO
T. BERTRAM LANCE AND VARIOUS FINANCIAL INSTITUTIONS

Prepared By
THE COMPTROLLER OF THE CURRENCY

August 18, 1977

INQUIRY INTO CERTAIN MATTERS
RELATING TO
T. BERTRAM LANCE AND VARIOUS FINANCIAL INSTITUTIONS

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TRANSACTIONS INVOLVING BERT LANCE, THE NATIONAL BANK OF GEORGIA (NBG), AND THE FIRST NATIONAL BANK OF CHICAGO (FNBC)

Scope of Inquiry: Review of: (a) documents at FNBC and NBG relating to Mr. Lance's personal loan and NBG's correspondent balance account; (b) records of hearings before the Committee on Governmental Affairs, U. S. Senate; and (c) public statements reported in newspaper articles.

- Summary of Data:
1. In October 1976, Hamilton Bank & Trust, Atlanta, Georgia, merged into NBG. At the time of the merger, Hamilton had a correspondent account balance of \$5,000 with FNBC. The account remained static at that amount until November 11, 1976 when it was closed by NBG. (Exhibit 1)
 2. On November 17, 1976 several FNBC officers called by appointment at NBG to visit President Lance and Executive Vice President William Green. The visit was prompted by a call from Mr. Lance to FNBC Chairman Robert Abboud in which "Lance indicated he wanted to do business with our bank." The correspondent services with NBG expected FNBC to provide were (a) the regular clearing of small cash letters and (b) participation in loans offered by NBG. FNBC expected a "strong possibility" that such participations might involve bank financing in Georgia. The FNBC memorandum of a visit recites that Jack Stephens of Little Rock, Arkansas "had written to Mr. Abboud earlier this fall suggesting that we contact NBG." The memorandum concludes:

Based on the introduction of this account it would be difficult to refuse the relationship. We will need to thoroughly review credit requests from NBG.

(Exhibit 2)
 3. On November 24, 1976 an officer of FNBC called Mr. Green of NBG and was asked to forward signature cards for an account. Mr. Green stated that NBG would not clear cash letters through FNBC. The subject of loan participations

was discussed, and the FNBC officer recorded the following in his memorandum of the conversation:

On the subject of the bank financing he (Green) indicated that they generally are willing to finance book value with additional collateral of a strong financial statement to support a loan in excess of book. Their rate is generally $P + 1$ with balances to bring the yield to $P + 3$.

The FNBC officer's memorandum also stated:

He also mentioned that because of Bert Lance's appointment (announced today) as Director of the Office of Management and Budget, Lance will need to sell NBG stock (possibly through a private placement) and the purchasers will probably need financing. Because of the equity offering last summer, the stock can't be sold until next spring and the financing need won't be until next summer.

(Exhibit 3)

4. Minutes of a meeting of NBG's executive committee on December 8, 1976 stated:

At the request of Mr. Lance, the First National Bank of Chicago was approved as a depository of NBG and it was also approved as a Federal Funds purchaser to the same limits as the other major approved banks.

Executive committee action was subsequently reaffirmed at the April 19, 1977 organizational meeting of the board of directors of NBG, when it was resolved, "that the following banks (including FNBC) be and they are hereby designated as depositories of this bank for the ensuing year, subject to modifications by this Board."

5. On December 8, 1976 NBG deposited \$50,000 with FNBC.

(Exhibit 1)

6. On January 6, 1977 Mr. Lance signed two notes of FNBC: a secured note for \$1.8 million and an unsecured note for \$1,625,000. Loans were made at prime plus $3/4$ percent. Loans were payable on demand. (Exhibits 4 and 5)

7. The terms of the January 6, 1977 loans were discussed in a credit memorandum of the same date prepared by the FNBC lending officer, J. G. Migely. (Exhibit 6) The memorandum states in part:

Mr. Bert Lance, President-elect Carter's new designate to fill the Cabinet Post for Office of Management and Budget, has had confirmed to him by the writer this day a \$4 million line of credit. Proceeds shall be utilized to pay the Manufacturers Hanover Trust Company principal plus accrued interest \$2,824,000, \$600,000 to pay various other bank indebtedness primarily in the Georgia area, and the balance of the line to satisfy any margin accounts at brokerage houses as they might exist, interest carrying charges on the loan here and supplemental living expenses. The initial take down is: \$1,800,000 secured by 162,929 shares of National Bank of Georgia, of which he will soon be the ex-President thereof (valued at \$15 per share carrying an 80¢ dividend and the purchase of said stock as the cause of the Manufacturers Hanover loan) and 8,875 shares of First National Bank of Calhoun at \$18 per share, for total collateral coming to us of \$2,603,000, upon which a 70% loan margin is set; \$1,625,000 is unsecured on an interim basis. We will know next week the details of approximately \$3 million in other securities taken from a valuation dated June 15, 1975, and to be pledged At this juncture, I am somewhat optimistic that there is sufficient liquidity in these securities to allow for full collateralization of the entire \$4 million line. Life insurance, at a \$2 million level, will also be assigned for our benefit.

* * * * *

Our notes shall be on demand and initially signed by both husband and wife, but soon to be transferred, along with all of Lance's assets, except perhaps his Atlanta residence (\$500,000 market value) to a Blind Trust in conformity with the Carter Administration guidelines.

* * * * *

We are in receipt of a signed personal financial statement of Bert and LaBelle Lance, dated June 15, 1975, which indicates a net worth of \$3,453,000. An updated statement shall reach us next week. This statement and the details of all subsequent ones shall be locked in the Credit Department's confidential files, with access only by Jack Clark or the writer. Annual statements shall be required if we have a well secured total exposure, or semiannually if any unsecured debt remains once all collateral available has been garnered here. Annual income had been \$200,000, excluding dividend on National Bank of Georgia, and this will drop dramatically to \$63,000 as a Cabinet Officer, excluding the dividends which will inure to the Blind Trust. We are also aware of a \$250,000 contingent exposure having to do with recent Presidential campaign expenses.

At the conclusion of our negotiations and execution of documents in conjunction with this credit, Mr. Lance expressed appreciation and satisfaction that the arrangement was fair and professionally accomplished. We are delighted to have this gentlemen's important business. He began his banking career at the First National of Calhoun, Georgia, and his wife was the daughter of a now deceased president of that institution. He has been at the National Bank of Georgia for approximately one year and will undoubtedly get back into banking upon return from Washington, whenever. We look forward to a long and mutually profitable relationship.

8. Mr. Lance signed a security agreement dated January 6, 1977 pledging 162,929 shares of NBG and 8,375 shares of Calhoun First National Bank (Calhoun) taken as collateral. (Exhibit 7)
The FNBC collateral register shows on January 10, 1977 the receipt of the January 6, 1977 Security Agreement and receipt of:

148,118 shares of NBG registered in name of Bert and LaBelle Lance, joint owners with rights of survivorship, not as tenants in common. 4,375 shares of Calhoun First National Bank registered in name of Bert Lance. 4,000 shares of Calhoun First National Bank registered in name of Lancelot Company.

(Exhibit 8)

January 10, 1977 FNBC pricing of collateral was \$2,498,756.

(Exhibit 9)

9. January 7, 1977 FNBC loan approval form states:

N/A (not applicable) under the caption "free balances."

(Exhibit 10)

10. Examiners prepared a random sample of secured and unsecured loans made by FNBC between September 1, 1976 and January 15, 1977 showing rates varying from prime rate plus 1/4 percent to prime plus 2 1/2 percent depending on collateral type.
An examiner-prepared listing of loans secured by bank stock made during the same period shows interest rates varying from prime rate plus 1/4 percent to prime rate plus 3/4 percent. (Exhibit 11)
11. January 26, 1977 minutes of the meeting of the board of directors of NBG show acceptance of Mr. Lance's resignation as president of NBG.

12. On March 18, 1977 FNBC repriced its collateral to a value of \$113,000. The Comptroller's examiner was told by FNBC employees that this revaluation was because of FNBC's realization that Mrs. LaBelle Lance had not given FNBC a consent on hypothecation for the 148,118 shares of NBG registered in joint names and pledged to FNBC as collateral. The \$113,000 remaining value was solely for the shares owned by Mr. Lance. No collateral value was assigned life insurance policies. (Exhibit 9)
13. On March 30, 1977 FNBC wire transfer unit received a \$200,000 deposit initiated by NBG, reason not stated. An FNBC April 19, 1977 officer memo (Exhibit 12) states the following:

As you will note, a considerable amount of contact has taken place between our two banks with all of it to NBG's benefit, and on March 30, 1977 NBG, on their own, increased their account with us from \$50,000 to \$250,000. I have thanked Green for the increase and was told that they expect to make use of our services, probably loan requests.
14. FNBC memoranda dated February 3, 1977, April 19, 1977, May 3, 1977 and June 15, 1977 show services performed by FNBC for NBG. (Exhibits 13 to 16) Examiner-prepared summary of FNBC federal fund purchases from NBG show regular federal funds purchases from August 1976 through July 1977. (Exhibit 17)
15. May 24, 1977 FNBC collateral register shows receipt of 14,811 shares of NBG registered in the name of Thomas Mitchell, Trustee. (Exhibit 18)
16. On July 7, 1977 the two FNBC notes dated January 6, 1977 were rewritten into a single demand secured \$3,435,000 note signed by Thomas Mitchell, Trustee, at prime rate plus 3/4 percent. (Exhibit 19) FNBC also took unlimited personal guarantees of Bert and LaBelle Lance and hypothecation agreements of Thomas Mitchell and Lancelot Company. (Exhibits 20 through 26)

17. The July 7, 1977 FNBC note was secured by NBG shares and by various other stocks and bonds. The July 8, 1977 FNBC collateral register shows an entry of:

162,929 shares of NBG

8,375 shares of Calhoun First National Bank and life insurance providing \$2 million death benefits on the life of Bert Lance assigned to FNBC.

(Exhibit 27)

July 8, 1977 FNBC pricing of collateral was \$1,717,611.

(Exhibit 28)

18. The FNBC collateral register together with collateral valuation cards examined by the Office of the Comptroller of the Currency shows receipt on July 21, 1977 of 770 additional shares of NBG and various other stocks and bonds received from Thomas Mitchell. On July 21, 1977 FNBC priced the collateral at \$2,517,634. On July 25, 1977 FNBC priced the collateral at \$2,860,928. Of that amount \$2,860,928 was from 163,699 NBG shares priced at \$15.50 per share. The \$2,860,928 does not include value of seven stock issues for which no public quote was available.

(Exhibit 28)

Conclusion: Mr. Lance actively participated in establishing the correspondent relationship between NBG and FNBC in November 1976. There is no record of discussion at that time of the possibility of a loan to Mr. Lance. FNBC memoranda relating to the granting of Mr. Lance's loans in January 1977 specifically state that no compensating balance was expected. FNBC anticipated the loans to Mr. Lance would be fully secured, and, as such, its terms were not more favorable than terms offered to other borrowers on secured loans. FNBC has a well documented file of correspondent services offered to NBG. On the basis of the information currently available to the Office of the Comptroller of the Currency, there appears to be no violation of applicable laws or regulations relating to national banks in the establishment or operation of these loan and deposit accounts.

TRANSACTIONS INVOLVING BERT LANCE, THE NATIONAL BANK OF GEORGIA (NBG) AND MANUFACTURERS
HANOVER TRUST COMPANY (MHT)

Scope of Inquiry: The Office of the Comptroller of the Currency (OCC) reviewed documents obtained from the files of MHT and NBG relating to:

(a) the correspondent balances maintained by NBG and by Calhoun First National Bank (Calhoun) at MHT; (b) the services provided to NBG by MHT and the costs of those services; and, (c) a loan by MHT to Bert Lance. Records reviewed included credit files, collateral registers, correspondent account statements, correspondent bank memoranda, profitability analyses, interest payment records and individual deposit accounts in which either Mr. Lance or Mrs. LaBelle Lance had an interest. Sworn testimony was taken from Mr. Lance; from the following MHT officers or attorneys: Betsy Jo Viener, Bruce Brougham, Robert J. McKean, Jr., George B. Balamut, Llewellyn Jenkins and Thomas Gerwin; and James Dickson, NBG controller. Special written statements were requested and received from MHT, NBG and Attorney Alexander W. Smith. Also interviewed were current and former officials of NBG.

Summary of Data:

1. On March 12, 1975, the yearly organizational meeting of the NBG board of directors authorized twelve commercial banks to be depositories of NBG. Included in the twelve were three New York City banks: Chase Manhattan Bank, N.A., Chemical Bank and First National City Bank.
2. An April 16, 1975 MHT credit memorandum by T. A. Gerwin, vice president, reflected a visit by King Cleveland, chairman of the board of directors of NBG, and Mr. Lance, and a discussion of a bank stock acquisition financing arrangement by which Mr. Lance would borrow between \$2.25 and \$3.25 million to purchase up to 179,000 shares of NBG. The memorandum goes on to state:

Mr. Brougham explained to Mr. Lance our policy of not lending against more than 10% of the bank stock and also our policy of not doing acquisition loans. Although this is not a true acquisition loan inasmuch as Financial General will ultimately be forced to divest their interest in the National Bank of Georgia, we did, however, discuss the acquisition aspect.

* * *

For the records, Citibank is currently the National Bank of Georgia's principal New York correspondent, and although it was not promised to us today one would assume that should we make this loan we would undoubtedly be receiving significant new business from the bank. Citibank was also approached today to extend the above loan, and they also have not had the time to respond to Mr. Lance's request. (Exhibit 1)

3. An April 24, 1975 MHT credit memorandum by Ms. Viener, vice president, discusses approval of Mr. Lance's loan: \$3.25 million at prime plus 1/2 percent for the first two years and prime plus 1 percent for the third year. The memorandum states:

Balances of 20% of the facility will be maintained in a National Bank of Georgia account, and we anticipate in addition, having all the New York activity for the bank flow through this account yielding balances up to \$1 million on a monthly average.

The memorandum states that Bruce Brougham, vice president, MHT -- "communicated approval to Mr. Lance with the following conditions:

1. Additional collateral of approximately \$975,000 will have to be forthcoming to properly secure our loan, since the current market value of \$17.50 per share is about 30% below book value.
2. We must be fully informed as to the other investors and their commitments.
3. We must have an assignment of death benefit of Mr. Lance's life insurance.
4. Since there is no written contract between Mr. Lance and the Board of Directors of the National Bank of Georgia, we must have a written agreement that he will continue as President of the bank through the term of our loan.
5. Mr. Lance must provide us with an updated financial statement and keep us fully informed of any changes.

* * *

Mr. Lance accepted the conditions which Bruce stipulated, and said he would be back in touch with further information about the investors within the next day or two. Assuming that all forthcoming information is satisfactory to us and that Mr. Lance complies with our credit requirements, the loan will be made on or about June 30." (Exhibit 2)

As set forth below, Mr. Lance on August 5, 1977 testified under oath that he had not seen the April 24, 1975 memorandum and that no one at MHT had said anything to him about compensating balances. All MHT officers from whom depositions were taken also testified that they had not said anything to Mr. Lance about compensating balances.

4. An April 24, 1975 MHT interoffice letter was prepared from Ms. Viener to Mr. Brougham, regarding a Money Committee meeting with respect to Mr. Lance's loan. The letter includes the following references:

Balances - 20% of facility
Spread - 2.253%

(Exhibit 3)

However, there was no compensating balance referred to in the MHT letter of May 21, 1975 to Mr. Lance setting forth MHT's commitment to make the loan. (Exhibit 3a)

5. In sworn testimony on August 5, 1977 Mr. Lance stated:

We never discussed any 20 percent or anything like that.

* * *

My conversation with Bruce related to my loan, to the plans that I had with the bank, what we were going to try to do. No mention made of compensating balances, of a percentage relationship or anything of that type. My loan stood on its own as far as I was concerned. I might add that I did discuss with him and I think he would say that, if you asked him, that I wanted to make sure that there was no imputation made about any sort of balance arrangement.

Attorney Alexander Smith, who accompanied Mr. Lance on August 5, 1977 stated for the record:

Now let me tell you about the compensating balances. You would find this out if you talked to Miss Viener and Mr. Brougham. Brougham states Bert and I did not talk

about compensating balances, but were old friends and I had every anticipation that there would result in a long and happy relationship between NBG and Manufacturers Hanover after Bert took control of the bank. He said I had every reason to expect that. We were old friends and I expected him to -- as he had done in the past, to do business with Manufacturers.

No agreement was made with regard to compensating balances and he will tell you that.

Now, anticipating there would be a correspondent relationship and measuring the services that would be required as their main and primary correspondent, Miss Viener computed that the balances that would be necessary to handle the clearings, to handle federal funds, to do the other services, would be an amount that would at least equal 20 percent of his loan.

There was no agreement. We can't help it what they put on the internal papers what they anticipate the balance will be. But it was expressly not a condition of the loan on their own internal paper and it is nowhere mentioned in a written commitment letter from Manufacturers to Mr. Lance.

MR. SERINO: When you spoke to Mr. Brougham, Mr. Smith, did he show you the copy of the paper?

MR. SMITH: I haven't seen him in person, talked to him only on the telephone.

6. Mr. Brougham, MHT district head for Georgia and other southeastern states, testified under oath on August 8, 1977:

. . . the only conversation I ever had with Mr. Lance about a correspondent account from the National Bank of Georgia, occurred at the end of that meeting. (The April 16, 1975 meeting at MHT attended by Messrs. Cleveland, Lance, Gerwin, and Brougham.)

To the best of my recollection, I believe that is when it occurred. It was at the end of it, as we got up to walk out, and Mr. Lance said, we are going to need a good correspondent in New York, and I said, we would be happy to work with you, Bert, or words to that effect. I am not trying to quote exactly what either one of us said, but that was it, and that was all that was said.

Q Did you ever discuss with Mr. Lance at any time, other than your April 16, 1975 meeting, the possibility of having balances of the National Bank of Georgia?

A No, sir.

7. Ms. Viener, who worked for Mr. Brougham, testified under oath on August 8, 1977 as follows: --

Q You indicate on that memorandum (MHT memo dated April 24, 1975) balances of 20 percent of the facility.

A Yes.

Q Where did that figure, and statement, come from?

A From our assessment of the overall situation. We felt that with Mr. Lance at the National Bank of Georgia, we had an excellent opportunity of once again developing business with that bank. We looked at the bank as a regional bank, we were familiar with similar organizations in the State of Georgia, and specifically in the City of Atlanta, and we felt that doing business with that bank, offering similar servicing, that we offered to those other banks that is mentioned, other types of banks that I mentioned, we might anticipate a relationship that could go as high as \$1 million. We knew they needed that kind of account relationship somewhere.

Having always worked very well with Mr. Lance, and knowing that we were closer to him through our relationship than any other bank in New York, we saw no reason why we would not be in a good competitive position to receive that business.

The Money Committee sheet form has a place for balances, having assessed the overall possibilities of the relationship, we could have put zero there, and had a footnote.

In retrospect, it seems it would have made considerably more sense, but for the purposes of this presentation, knowing that it was rather a formality, having already received the credit approval from the Senior Lending Officer, and since 20 percent is a traditional compensating balance received for a loan, we plugged in, we -- I plugged in 20 percent, thinking of an overall relationship that we hoped to have one day, not discussed, but we couldn't think of any reason why we wouldn't get it.

It was quite innocent, perhaps to even think that we would have no reason not to get it, but we were fully competitive, and could get the services that we needed, and we loaned Mr. -- for 15 or 20 years, Mr. Lance.

Actually, if this were an accurate presentation of what we really thought, you know we would have put a different percentage, a much higher percentage, because it had nothing to do with the loan. It was simply reflective of what we hoped to have of a -- in a National Bank of Georgia account relationship.

The 20 percent merely reflected the customary figure that is used as a correspondent bank, I mean as a corresponding balance. So that was put in.

* * *

Q Is it your testimony also that you had no discussion with Mr. Lance concerning the 20 percent balances?

A I personally had no discussion with Mr. Lance concerning the -- concerning balances of any form. And in my close association with my colleagues, who also were responsible for the loan, was never aware of any discussion they had with Mr. Lance regarding balances.

Q So that your statement here to the Money Committee that, in fact, there would be balances of 20 percent of the facility, in your testimony here today was not a fact, is that correct?

A That is correct.

But may I just add to that once again that in this particular case the Money Committee sheet was a formality.

8. The April 24, 1975 interoffice letter which was prepared for the Money Committee had a calculation of the spread at 2.253 percent. The witnesses were questioned about whether that particular spread as reported to the Money Committee was determined by including in the computation the "20% balance." Ms. Viener testified on August 8, 1977 that she computed the spread contained in the April 24 interoffice letter, but that she did not recall whether the balance was used in the calculation. Mr. Brougham was asked on August 8, 1977 about the April 24, 1975 spread calculation, and testified as follows:

Q If you look further, it indicates the spread of 2.253 percent?

A Yes.

Q In calculating that, do you use the 20 percent of facility figure in calculating this spread?

A You normally would, yes.

Q Do you know whether or not that it was done in this particular instance?

A I believe it was, yes.

At the request of the Comptroller, Mr. Brougham, subsequent to his testimony, figured the spread as of April 24, 1975 and determined that without including a 20 percent compensating balance, the spread would have been 1.071 percent.

9. Llewellyn Jenkins, executive vice president, MHT, and one of the senior credit officers who approved this loan, testified under oath on August 8, 1977 that in figuring a spread the general practice of the bank would be to include in the calculation the balances if they were "firm balances."

He testified as follows:

Q As part of the value to the bank, do you include in that spread the fact that the bank is going to obtain balances of 20 percent of the facility?

A Well, you would only, if you knew in the original deal, between the bank and the customer, because that is a matter of contract between the two of you, how this thing is going to go.

If you knew that the customer, and your people had arranged that 20 percent balance that was to be part of the arrangement, part of the deal, then yes, you figure that 20 percent, of course, you have reserve requirements out of that, so mathematically you come out a little bit under what you arranged.

You might have arranged ten plus five, or ten plus ten. There are a lot of other things in here. Yes, that would be considered, if it were arranged ahead of time.

* * *

Q Is it your testimony then that as far as your position on the Money Committee, and your position on the credit evaluation of this loan, that from your recollection you had no -- you were not influenced by the fact that there might be a 20 percent balance?

A That is right.

In fact, I probably would have remembered it the other way. Had there been a proposal to use 20 percent balances, and you and I are talking about balances of another entity, not of the person being loaned to, that is what this is all about, at that point, as I indicated a few minutes earlier, we would have had a stoppage right there.

10. An NBG ledger sheet labeled Manufacturers Hanover Trust Co., shows that on April 29, 1975 its correspondent balance account with MHT was opened with an initial deposit of \$250,000. (Exhibit 4) MHT's new account processing sheet shows that on May 9, 1975 NBG opened a correspondent account with MHT, with an initial deposit of \$250,000. (Exhibit 5) Ms. Viener on May 12, 1975 wrote NBG Executive Vice President James H. Dickson, Jr., enclosing signature cards and custodian agreement forms for completion in conjunction with the opening of an account in the name of NBG. (Exhibit 6) The May 12, 1975 minutes of the meeting of NBG executive committee stated that:

At the request of management the Manufacturers Hanover Trust of New York City was designated an approved depository of the bank and requisite officers were authorized and directed to execute the documents required to effectuate this relationship.

On August 5, 1977 Mr. Lance testified that "management" as used in those minutes included him and Chairman of the Board King W. Cleveland.

11. Testimony of James Dickson, secretary to the board and controller of NBG, was taken under oath on August 10, 1977. He testified:

Q Let's, if I may, draw your attention to the period of time February 1975, if I may. I know you don't have any documents here with you today, Mr. Dickson, and you are responding pursuant to my telephone call of yesterday asking you to appear, so you certainly came without any information that could refresh your recollection. I will try to refresh your recollection as best I can. During that period starting in February of 1975, did you have any discussions with any New York banks concerning the services that you were obtaining, as to whether they were good, bad, or indifferent; if you can recall?

A I can't recall any specific instances. I know there was a general atmosphere that had prevailed for several years, and we had made -- I don't know whether you care about the names of the other banks or not -- but we always had a bank-to-bank relationship in New York. Just to be brief about it, at one time Chase was our main correspondent. We had communications problems. We had operational problems, particularly in the area of clearing security transactions and getting

assignments, so it was suggested, and I don't remember at what time, that National City -- First National City would probably do a better job, so we moved everything to First National City. Communications problems persisted, along with some insoluble problems that appeared to be with respect to some of the clearing items; lost cash, letters, items charged back to us that weren't ours.

Q Were you ever informed, Mr. Dickson, that the correspondent relationship being established by National Bank of Georgia at Manufacturers Hanover was to be, in any way, associated with the fact that Mr. Lance was borrowing money from that bank?

A I don't recall any such.

12. On June 30, 1975 a demand secured note to MHT for \$2,625,000 was signed jointly by Mr. and Mrs. Lance. The note granted a security interest in 148,118 shares of NBG and 8,375 shares of Calhoun. (Exhibit 7) MHT records show interest charged and paid at prime plus 1/2 percent. (Exhibit 8)
13. Various documents record the receipt by MHT of collateral for the loan to Mr. Lance, as follows:
 - . A July 1, 1975 letter enclosing collateral. (Exhibit 9)
 - . MHT receipt for collateral. (Exhibit 10)
 - . MHT collateral valuation of \$1,817,209 dated March 4, 1976 which equalled 70 percent of the market value of the shares. (Exhibit 11)
 - . A June 25, 1975 MHT corporate resolution form in the name of Lancelot and Company. (Exhibit 12)
 - . A June 30, 1975 MHT hypothecation agreement of Lancelot and Company, Bert Lance, president. (Exhibit 13)
14. MHT officials advised OCC that over the period March 1, 1975 to June 30, 1975, MHT made no comparable bank stock transactions. However, counsel for MHT advised OCC that the general policy of MHT on this category of loans over the period was to set rates within a range of prime to prime plus 1/2 percent. ^{*}/

^{*}/

As this report was in final preparation, OCC received from MHT in response to inquiry extracts from the bank's National Division Loan Manual bearing the date 8/5/68 and the heading "Bank Stock Loan." (Exhibit 13a) Because of the timing of the receipt of this item, analysis of its contents and related questions could not be included in this report.

15. Balance analysis sheets prepared monthly by MHT from May 1975 to June 1977 reflect NBG's average gross correspondent balances, average float and the average collected balances. Services rendered through the account, such as credit postings, checks paid, and securities transactions, are assigned a cost by MHT's internal accounting system. A balance necessary to cover total costs for the month is computed and subtracted from the average collected balance. Those monthly account analyses show the following:

<u>Month</u>	<u>Average Gross Balance</u>	<u>Average Collected Funds (amounts in thousands)</u>	<u>Average Collected Balances Available After Costs</u>
5/75	\$ 256	\$ 224	\$ 221
6/75	297	276	253
7/75	1,248	922	665
8/75	1,112	931	665
9/75	1,315	937	637
10/75	1,228	1,008	724
11/75	1,285	1,563	915
12/75	1,249	1,863	1,322
1/76	\$1,454	\$1,738	\$1,099
2/76	784	1,104	549
3/76	1,159	836	282
4/76	1,348	945	475
5/76	1,523	1,349	763
6/76	1,404	849	387
7/76	1,070	894	463
8/76	1,184	789	274
9/76	1,217	837	305
10/76	1,639	1,306	737
11/76	1,936	1,637	1,011
12/76	1,260	1,168	683
	<u>1/</u>	<u>1/</u>	<u>1/</u>
1/77	\$444 783	\$444 968	\$415 581
2/77	528 534	528 718	463 393
3/77	206 283	206 378	176 80
4/77	5 208	5 113	2 143-
5/77	4 345	4 332	- 111-
6/77	4 445	4 405	4 28-

(Exhibit 14 and 23)

16. Various documents reflect difficulties by MHT in administering the loan:

- . July 11, 1975 to November 5, 1976 -- eight letters from MHT to Mr. Lance discussing documentary defects with

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In late December 1976, NBG opened an additional correspondent balance account entitled "trading account." Refer to paragraph 20 for details concerning the operation of this account.

respect to collateral in MHT's possession and requesting additional collateral, including 14,657 shares of NBG which had been issued to Mr. Lance as a stock dividend on December 31, 1975. (Exhibit 15)

- . March 12, 1976 letter from Ms. Viener (MHT) to Mr. Lance concerning past due loan interest and confusing billing procedures. (Exhibit 16)
- . September 30, 1976 -- An MHT internal workup of Mr. Lance's loan criticizing it because of a concentration of collateral. (Exhibit 17)

17. MHT witnesses testified on August 8, 1977 that in addition to the "costed-out" services attributable to the NBG balance, MHT provided other services to NBG to support the correspondent balance arrangement. At the request of the Comptroller, MHT submitted the following documents concerning these other services provided to NBG:

- . An August 10, 1977 MHT memorandum showing the cost of various "non-analyzed" services converted to average correspondent balances which NBG would need to maintain to reimburse MHT for "non-analyzed" services rendered. The memorandum states "an average monthly balance of approximately \$125,000 would be required in 1975 and approximately \$52,000 in 1976 to cover the delivery of these services on a comparable basis." (Exhibit 18)
- . An August 10, 1977 Correspondent Bank Profile, prepared by MHT, reflecting a study of various size banks' correspondent balance relationships with MHT. The study shows that the selected banks frequently

maintain balances in excess of the minimum amounts required to reimburse MHT for "costed-out" services.

(Exhibit 19)

- . An August 11, 1977 letter from Mr. Brougham, vice president, MHT, to OCC, concerning the effects of "securities fails." "Security fails" are the failure to receive securities in accordance with instructions. Such fails would cause the funds deposited as payment for the securities to be held on deposit for a longer period of time than originally scheduled and thus increase the average deposit balance. Failures to deliver securities would reduce average deposit balances. The August 11, 1977 MHT letter states that when effect is given to securities fails and non-costed services, the average net usable NBG balance at MHT was as follows:

<u>1975</u>	<u>1976</u>	<u>1977</u>
\$646,000;	\$340,000;	\$ 72,000

(Exhibit 20)

- 18. May 27, 1975 to April 15, 1977 -20 letters, memos or contact reports list various services offered to NBG by MHT. Services include a range of normal correspondent services. The memoranda note MHT refused to accept two commercial and one municipal loan participation from NBG. (Exhibit 21) The services apparently are those referred to in the August 10, 1977 memorandum. (Exhibit 18)
- 19. The Comptroller's December 6, 1976 report of examination of NBG listed the relationship with MHT as a concentration because on the date of the examination total MHT liability to NBG exceeded 20 percent of NBG's capital structure. The report did not criticize the relationship but listed it for information purposes, for use by management and the board in the bank's overall asset and liability

management policy decisions. The listing was:

\$5,000,000 Federal funds sold

\$7,324,516 Due from accounts

\$12,324,516

20. On December 22, 1976 NBG opened an additional deposit account at MHT to facilitate securities trading activity. (Exhibit 22) December 1976 - June 1977 MHT balance analysis sheets show NBG's trading account balance. (Exhibit 23) On April 18, 1977 minutes of the meeting of NBG's executive committee show a decision to discontinue the MHT trading account and notify MHT of same. (Exhibit 24)
21. On January 6, 1977, Mr. Lance's loan at MHT was paid in full. A January 6, 1977 letter from Mr. Lance authorized release of all collateral held by MHT to The First National Bank of Chicago. The letter also authorized release of 14,811 shares of NBG which MHT had never received. (Exhibit 25) A chronological schedule of all activity on Mr. Lance's loan has been prepared by the OCC. (Exhibit 26)
22. OCC during its inquiry requested and received the following materials explaining correspondent services received by NBG from MHT:

. A July 28, 1977 memorandum from NBG Executive Vice

President William Green, which states in part as follows:

Our previous New York relation had been with the First National City Bank and, although I do not know the facts concerning the decision to change, it is my understanding that based on Mr. Lance's prior experience with the two banks, he found Manufacturers Hanover to be much more responsive to the needs of Southern correspondents than was First National City Bank.

Manufacturers Hanover handled all of our clearings in the New York and the northeastern United States provide safekeeping for our Trust Department and bond portfolio securities, bought participations in certain of our loans to the extent they were over the amount we wanted to carry in our own portfolio, participate with us in both buying and selling federal funds, provide economic advice for use of our bond portfolio management, handle our import letters of credit, handle collection items for us in the New York area, handle interbank funds trans-

fers for us and generally stand willing to give us advice in many of the technical areas in which they have expertise. In the early part of this year, they conducted a seminar on cash management here at NBG for some of our senior officers, and have been providing us with information for the organization and development of our asset and liability management committee.

(Exhibit 27)

An August 11, 1977 letter from Alexander W. Smith to the Comptroller and supplementary materials which describe the nature and volume of service transactions performed for NBG by MHT. (Exhibit 28) Mr. Smith's letter stated in part:

Average Balances Maintained. NBG has computed the average collected balance maintained during the year 1975 at \$586,000, for 1976 \$1,121,000, and for 1977 \$703,000 (taking into consideration the funds kept during 1977 in the trading account). It is significant that the balance maintained in the two accounts during 1977 immediately following the full payoff of the Bert Lance loan for January of 1977, this balance was \$1,412,000, for February of 1977 it was \$1,246,000 and for March of 1977 it was \$585,000. It should be noted also that commencing early in 1977, NBG embarked on a program of handling its clearings through Citizens & Southern National Bank of Atlanta in an effort to monitor more closely its balances maintained in correspondent banks. Thus, the balances maintained at MHT beginning in April were reduced substantially and concurrently MHT ceased or greatly reduced its handling of clearings for NBG.

* * * * *

I am advised that NBG probably did not maintain as tight and strict a monitoring of its balances at the various banks in the periods involved as it should have. First National City Bank which was the primary New York correspondent prior to the commencement of correspondent relationship with MHT, as well as MHT on analysis, frequently had what might appear to be somewhat excessive balances. Subsequently, with the help of consultants, NBG has changed its correspondent relationships to keep a tighter control on these balances and is diligently seeking to prevent excess balances being maintained at any bank. In addition, it should be noted that the bond trading account that was maintained at MHT for the period January 1977 through March 1977 was discontinued in April of 1977, because of losses resulting from a general decline in the bond market which resulted in a substantial reduction in the balances maintained at MHT.

- . On August 9, 1977 the Comptroller directed NBG to file a special call report relating to correspondent services received from MHT and other banks. (Exhibit 29)
- A response from NBG lists among other things, four loan participations offered to MHT, all of which were refused. (Exhibit 30)
23. Calhoun opened on June 11, 1951 a correspondent account at MHT. The balance during the period of Mr. Lance's loan did not change significantly. A June 24, 1975 MHT memorandum discusses the factoring services provided to Calhoun by MHT. (Exhibit 31)
24. An analysis of the Bert Lance Personal Demand Deposit Account shows that the account was virtually inactive with the only activity involving the receipt of loan proceeds and payment of the loan. (Exhibit 32)
25. Public disclosure materials filed with the OCC by NBG contain information concerning the loan to Mr. Lance from MHT. Information disclosed included the principal amount of the loan, the demand nature of the obligation, the applicable interest rate, and the pledge of NBG shares as collateral for the obligation.
26. An August 11, 1977 letter from Llewellyn Jenkins, executive vice president, MHT, to the Comptroller, states that:
- Today's New York Times carries a column which seeks to convey the false impression that Mr. Lance brought Mr. Carter to this bank on June 19, 1975 for some sinister or unethical purpose other than to introduce to me an aspiring candidate for the Presidency. At no time during that visit was the matter of Mr. Lance's business transactions with the bank discussed and to insinuate otherwise is both untrue and a miserable innuendo against the President of the United States.
- (Exhibit 33)
27. A schedule prepared by the OCC shows the correspondent balances maintained by NBG in 10 different banks for each month from June 1974 to July 1977. (Exhibit 34)

Conclusion:

There is some documentary and circumstantial evidence suggesting the possibility that a 20 percent compensating balance from NBG was a condition of the loan to Mr. Lance from MHT. However, all the principals involved denied under oath (a) that such an arrangement existed and (b) that such an arrangement was ever discussed. Based upon the information available to the Office of the Comptroller of the Currency at this time, evaluated in light of the uncontroverted testimony, there appears to be no violation of any applicable laws or regulations relating to national banks.

TRANSACTIONS INVOLVING BERT LANCE, THE NATIONAL BANK OF GEORGIA (NBG) AND
CITIBANK, N.A. (CITIBANK)

Scope of Inquiry: Citibank records pertaining to NBG and Mr. Lance were reviewed. Records showing deposit activity in NBG's correspondent balance at Citibank were reviewed at both NBG and Citibank. NBG board of directors and executive committee minutes pertaining to any correspondent relationship were reviewed and copied at NBG. A comparative review of deposit relationships of NBG with all New York banks was made.

Summary of Data: Correspondent Relationship

1. A demand deposit correspondent account was opened for NBG at Citibank on October 19, 1972 in the amount of \$100,000. (Exhibit 1)
2. Citibank provided customary correspondent functions, such as cash letter clearing and securities safekeeping for NBG. (Exhibit 2)
3. NBG noted on February 17, 1975 that it was experiencing operational problems with the account. Additionally, Citibank during 1974 considered balances as repeatedly insufficient to meet servicing needs. (Exhibits 3, 4 and 5)

Lance Relationship

4. On April 16, 1975, Mr. Lance and King Cleveland, chairman of the board and chief executive officer of NBG, met with Executive Vice President Reuben F. Richards and Account Officer David W. Graves of Citibank. The purpose of the meeting was to obtain financing for the acquisition of NBG stock by Mr. Lance and two other investors. The loan was to be secured by the purchased bank stock. By letter dated April 22, 1975 Mr. Richards advised Mr. Lance that Citibank had declined the loan. (Exhibit 6)

5. On May 14, 1975 Citibank Account Officer David Graves wrote in a memorandum that he had met Travis Hammer, account officer at Manufacturers Hanover Trust Company (MHT) at a Georgia bankers' convention and discussed the purchase of NBG by Mr. Lance. His memo states, in part, "MHT has financed the purchase and will get the NY correspondent relationship as part of the deal."
(Exhibit 7)

Conclusion:

The NBG correspondent relationship with Citibank was an unprofitable one for Citibank. Operational problems also led to expressions of dissatisfaction with the account by both Citibank and NBG officials. Those problems appear to have contributed to the movement by NBG of its principal correspondent relationship to MHT in the summer of 1975, eventually resulting in the closing of the account. Based on the information available to the Office of the Comptroller of the Currency, there appears to be no violation of the applicable laws and regulations relating to national banks.

TRANSACTIONS INVOLVING BERT LANCE, THE NATIONAL BANK OF GEORGIA (NBG), CALHOUN
FIRST NATIONAL BANK (CALHOUN), AND THE CITIZENS AND SOUTHERN NATIONAL BANK (C&S)

Scope of Inquiry: The Office of the Comptroller of the Currency (OCC) reviewed correspondent account records of NBG and Calhoun at C&S and the C&S records of loans to Bert Lance, Lancelot and Company, Bert Lance for Governor Campaign Committee, Inc., and Calhoun Unifirst, Inc.

Summary of Data:

1. The records obtained by this Office indicate that Mr. Lance at least as early as October 1975 borrowed from C&S. As of January 31, 1977, Mr. Lance was liable to C&S for personal borrowings of \$185,000.
2. In addition to his personal borrowings, Mr. Lance was associated with the following entities to which C&S made loans: Lancelot and Company, Bert Lance for Governor Campaign Committee, Inc., and Calhoun Unifirst, Inc. The records reflect that as of January 31, 1977 those entities were liable to C&S in the following amounts: Lancelot and Company, of which Mr. Lance is a partner, \$180,000; Bert Lance for Governor Campaign Committee, \$390,000, of which Mr. Lance guaranteed \$250,000; Unifirst, Inc., \$400,000, which was guaranteed by Mr. Lance jointly and severally with two other persons. (Exhibits 1 and 2)
3. A review of the records indicates that Calhoun's correspondent deposit account in C&S predates 1956.
4. Between October 1975 and June 1977, the Calhoun correspondent account balances in C&S have reflected free balance deficits for 8 of the 21 months. The highest free balance month was November 1976 with \$65,000, followed by a reduction to \$22,000 in December 1976. (Exhibits 3 and 4)
5. In February 1976, NBG opened a correspondent deposit account at C&S with a deposit of \$50,000.
6. From the opening through November 30, 1976, balances in NBG's account at C&S ranged from a low of \$50,000 to a high of \$350,000. Subsequent to December 1, 1976, average daily balances ranged between \$1,800,000 and \$4,400,000 and were

generally at a level necessary to cover the cost of activity in the account. This increase was due to a consolidation in C&S of clearing activities for which other banks previously had been used. (Exhibits 5 and 6)

Conclusion: There is no discernible relationship between the loans to Mr. Lance and his associated interests and the deposit accounts maintained by NBG and Calhoun at C&S. Based on the information currently available to the Office of the Comptroller of the Currency, there appears to be no violation of statutes or regulations applicable to national banks in the establishment or operation of these loan and deposit accounts.

UNITED AMERICAN BANK, KNOXVILLE (UAB-KNOXVILLE) CORRESPONDENT ACCOUNTS AND
BERT LANCE

Scope of Inquiry: The Office of the Comptroller of the Currency (OCC) reviewed loan records of UAB-Knoxville and United American Bank, Nashville (UAB-Nashville) and correspondent account records of The National Bank of Georgia (NBG) and The Calhoun First National Bank (Calhoun) at both UAB banks.^{1/}

- Summary of Data:
1. On September 15, 1976, UAB-Knoxville made a loan of \$515,000 to Mr. Lance under a \$843,750 line of credit (the loan balance was reduced the following day to \$443,466.87). The line of credit was authorized to fund Mr. Lance's acquisition of his pro rata share of an NBG stock offering.^{2/} Advances were to be secured by purchased NBG shares. The rate was Citibank prime plus 1/2 percent with principal repayment due January 15, 1978. (Exhibits 1, 2, 3, and 4)
 2. NBG board minutes of October 13, 1976, show Mr. Lance reported borrowing \$443,466.87 from UAB-Knoxville for the purpose of purchasing NBG stock. (Exhibit 5)
 3. A list of 10 loans to unrelated borrowers by UAB-Knoxville between July 12, 1976, and August 4, 1976, which were secured by bank stock, shows rates ranging from prime to prime plus 1/2 percent. Unsecured loans advanced in the same approximate period show rates ranging from prime to prime plus 3 percent. (Exhibit 6)
 4. The loan was restructured on January 21, 1977, in name of Thomas Mitchell Trustee. 20,700 shares of NBG N/O T. Mitchell Trustee were sent by NBG to UAB-Knoxville on May 17, 1977. (Exhibits 7, 8 and 9)

^{1/} UAB-Knoxville is controlled by Jacob F. Butcher. UAB-Nashville is controlled by his brother, C. H. Butcher. The banks are separate legal entities.

^{2/} Lance's pro rata share of the stock offering was to be 50,000 shares at \$16.875 per share.

5. The January 21, 1977, loan agreement provides that UAB-Knoxville may demand additional collateral if either market value or book value of collateral falls between \$16.875 per share and, if borrower fails to deliver, the bank may declare the loan due and payable. The loan application dated January 21, 1977, for the note replacement reflects collateral of 26,428 shares of NBG and guarantors Bert and LaBelle Lance. Federal Reserve Form U-1 states the purpose is for purchase of NBG stock and reflects collateral of 26,428 shares of NBG. Number of shares delivered were 26,328. (Exhibits 5,7,9,10 and 11)
6. An NBG correspondent balance account was opened April 22, 1976, with \$25,000 at Hamilton National Bank (changed its name and converted to a state bank, United American Bank, Knoxville, on October 29, 1976). There was no activity in the account until April 1977 when the balance was increased to \$75,000. The account has been inactive with only four entries since inception. (Exhibit 12)
7. Calhoun opened a \$50,000 corresponding balance account on May 2, 1977, at UAB-Knoxville. No activity through June 30, 1977.
8. No written memoranda were located at UAB-Knoxville concerning the opening of those accounts and no written memoranda were obtained indicating what services were provided to either NBG or Calhoun in return for the accounts.
9. On March 7, 1977, UAB-Knoxville purchased a 100 percent participation in a \$500,000 loan made by NBG. Following the commencement of this investigation and at the request of the Comptroller, NBG in a memorandum dated July 28, 1977, attributed the \$50,000 increase in NBG's deposit balance to that participation arrangement. The same memorandum stated that UAB-Knoxville provided investment advice and technical guidance in the data processing area. It also indicated a prior NBG plan to lessen dependence on New York banks by forming a southern group of banks to handle overlines. NBG did establish correspondent

relationships with UAB-Knoxville and UAB-Nashville and with other banks located in the South. (Exhibit 13)

10. NBG also had a corresponding account at UAB-Nashville which was established for the purpose of clearing checks in the Nashville area. Clearing activity was later transferred to The Citizens and Southern National Bank (C&S). There were no loans to Mr. Lance or his personal interests from the Nashville bank. A summary of activity at UAB-Nashville is:

9/23/76	Date account opened with \$25,000 deposit
9/23 to 9/30/76	Average balance \$105,000
10/76	" " 160,000
11/76	" " 206,000
12/76	" " 282,000
1/77	" " 79,000
2/77 to 4/77	" " 25,000
5/77	" " 1,000
6/77	" " 1,000

Conclusion: The files of the banks involved contain no evidence of connections between the UAB-Knoxville loan to Mr. Lance and the deposit accounts maintained by NBG and Calhoun at UAB-Knoxville or UAB-Nashville. Based on the information currently available to the Comptroller of the Currency, there appears to be no violation of applicable laws or regulations relating to national banks in the establishment or operation of these loan and deposit accounts.

RELATIONSHIP OF THE NATIONAL BANK OF GEORGIA (NBG) OFFICERS AND DIRECTORS WITH
CHEMICAL BANK (CHEMICAL), NEW YORK

Scope of Inquiry: The Office of the Comptroller of the Currency (OCC) reviewed documents at Chemical relating to Bert Lance's personal loan, a loan to Gwinnett Industries, Inc. and NBG's correspondent balance account with Chemical.

Summary of Data: 1. On April 16, 1975, Chemical officers met with Pat Pattillo, chairman, Federal Reserve Bank of Atlanta, to discuss a bank stock acquisition loan to enable his brother, Dan Pattillo, director, NBG, to purchase 25 percent of the outstanding shares of NBG. Chemical was asked to consider financing the Pattillo purchase by making a \$3 million loan to Gwinnett Industries, Inc., a Pattillo family owned corporation.

2. A June 25, 1975 Chemical memorandum to the Credit Committee discusses the specifics of the \$3 million loan to Gwinnett Industries, Inc. and, after an analysis of the creditworthiness of the borrower, presents the following summary recommendation:

Based upon the high regard in which the Pattillo's are held, both as businessmen and community members, the historical profitable operations of Gwinnett, the substantial value of its assets (which are carried at historic cost and not at market) and the probability of an account from NBG and other new business down the road generated either by NBG or the Pattillo's, we strongly urge your approval of this request.

(Exhibit 1)

3. On June 26, 1975, Chemical advanced \$3 million to Gwinnett Industries, Inc. under a five-year term loan agreement. The funds were used to purchase 169,109 shares of NBG. The loan agreement called for 12 consecutive quarterly payments in the amount of \$250,000. The loan was written at the prime rate, floating, plus 1 1/4 percent, with interest payable quarterly. The loan carried the unconditional guarantee of D. B. Pattillo, chairman and president of the company. (Exhibit 2)

4. On August 22, 1975, Mr. Lance wrote a letter to a Chemical bank officer discussing their recent contacts and offered the following comment:

I do want us to work together toward establishing a relationship and look forward to that taking place in the not too distant future.

(Exhibit 3)

5. A September 4, 1975 Chemical memorandum written in anticipation of a visit from Mr. Lance recaps Chemical's loan to the Pattillo interest and Messrs. Pattillo and Lance's ownership interest in NBG. Memorandum goes on to state:

At present, we do not have a banking relationship for NBG although we feel that this is an ideal time to push for an account.

(Exhibit 4)

6. On October 9, 1975, Mr. Lance wrote a letter to Chemical enclosing a cashier's check for \$200,000 to open an NBG correspondent balance account. (Exhibit 5)
7. On January 28, 1976, Mr. Lance wrote to Chemical requesting a \$265,000 personal loan "to make payments on bank stock." Mr. Lance stated that he planned to pay or substantially reduce the loan by December 31, 1976. (Exhibit 6)
8. On or about February 9, 1976, Mr. Lance signed an undated, unnumbered \$265,000 note to Chemical with no maturity date or interest stated. On February 9, 1976, \$150,000 in loan proceeds were disbursed through NBG's correspondent bank account with instructions to credit Mr. Lance's account at NBG. Chemical's "offering ticket," dated February 9, 1976, details the terms of the loan as follows: demand secured \$150,000, 7 1/4 percent (prime rate plus 1/2 percent), "to be secured within two weeks." (Exhibits 7, 8 and 9)
9. A March 1, 1976 Chemical memorandum written in anticipation of a visit from Mr. Pattillo discusses the Pattillo family interests business relationship with Chemical. As part of the

analysis, the memorandum reviews "collected balances available for compensating balances," including NBG's correspondent balance account in the total. (Exhibit 2)

10. A May 27, 1976 entry in the Chemical collateral register shows receipt of 14,811 shares of NBG registered in the name of Bert and LaBelle Lance, joint owners with rights of survivorship, not as tenants in common. Chemical priced the collateral in excess of \$220,000. Subsequent to that date, six Chemical Exception Memoranda were circulated requesting that lending officers follow up to correct collateral documentation imperfections and directing the account officer to obtain a new note in the amount of \$150,000. Chemical credit files included internal memoranda detailing problems and various written requests sent to Mr. Lance regarding the documentary defects. (Exhibits 10 through 20)

11. A December 13, 1976 Chemical memorandum summarized the bank's relationships with Mr. Lance and NBG as follows:

We established a rapport with Bert Lance soon after his arrival at National Bank of Georgia in the Spring of 1975. We subsequently had a number of meetings with Lance to discuss possible ways of working with his organization, and in October 1975, we opened an account for National Bank of Georgia. Collected balances in that account averaged \$200,000 in 1975, and are \$220,000 year-to-date. As of this point in time, we have not been able to totally activate the relationship and services have been limited to wire transfer business and coupon collection services. In addition to the account relationship, we made a \$150,000 Demand Secured Working Capital Loan to Lance directly in February of 1976, which was used by him to pay taxes and cover certain expenses associated with his move to National Bank of Georgia. We hold 14,812 shares of NBG stock as collateral against that loan.

* * *

(Exhibit 21)

12. Chemical Bank Account Analysis Sheets show average balances and earnings on the NBG account as follows:

Year-to-date	<u>12/75</u>	<u>12/76</u>	<u>6/77</u>
Average balance	\$201,000	\$224,500	\$145,000
Available balance (after reserve requirements)	\$166,532	\$184,615	\$120,814
Net earnings	\$ 2,375	\$ 10,178	\$ 2,926

(Exhibit 22)

Recorded activity in the account was largely limited to wire transfers and coupon collection services.

13. A February 18, 1977 Chemical loan statement shows Mr. Lance's \$150,000 loan was paid, with respect to principal, on January 12, 1977. The final interest payment was made on February 4, 1977. (Exhibit 23)

Conclusion: Although it appears that Chemical became a correspondent bank of NBG in part because Chemical lent money to Mr. Lance and to Mr. Pattillo's company, no evidence was discovered indicating that loans to Mr. Lance or Gwinnett Industries, Inc. were preferential in treatment because of the correspondent balance relationship. Based on the information currently available to the Office of the Comptroller of the Currency, there appears to be no violation of the applicable laws and regulations relating to national banks in the establishment or operation of their loan and deposit accounts.

INVESTMENT MANAGEMENT AGREEMENT BETWEEN THE NATIONAL BANK OF GEORGIA (NBG) AND THE
CENTRAL STATES, SOUTHEAST AND SOUTHWEST AREAS PENSION TRUSTEES (TEAMSTER'S PENSION
FUND)

Scope of Inquiry: The Office of the Comptroller of the Currency (OCC) reviewed NBG records relating to the acquisition and administration of the trust account and OCC examination reports pertinent to the operations of NBG's trust department.

Summary of Data: 1. On March 31, 1976 NBG signed an agreement to manage \$17,500,000 for the Teamster's Pension Fund. Under the agreement, NBG received fees only for the management of the account; the assets of the fund were to be held by American National Bank & Trust Company, Chicago, Illinois. (Exhibit 1)

2. As of July 22, 1977 NBG managed for the Teamster's Pension Fund diversified trust quality investments with a market value of \$24,523,174. The Comptroller's trust examination reports have not criticized NBG's administration of that account.

3. The earliest NBG record about solicitation of the Teamster's Pension Fund account is a letter dated November 17, 1975 from Bert Lance to Daniel J. Shannon, executive director, Teamster's Pension Fund. The letter states:

Just a brief note to tell you how much I enjoyed talking with you on the telephone on Friday and how very excited we are at The National Bank of Georgia over the possibility of our being of service to your organization.

We are most definitely interested in joining the investment team and being of total and complete service to you and your fund in that regard. We are most appreciative to you for being given such an opportunity.

I will await further word from you as to what our next step should be. In the meantime, I am sending you a copy of our 1974 annual report for your files.

(Exhibit 2)

4. On January 21, 1976 King D. Cleveland, chairman of the board of NBG, wrote a letter to John Spickerman, employer trustee of the Teamster's Pension Fund, stating:

I wanted a chance to give you additional information about NBG which might be helpful in our participation in the management of the Teamsters' Pension Fund.

I started our Trust Department fifteen years ago and am still Chairman of the Trust Committee. Jefferson Davis, retired General Counsel for Southern Bell, is a member of my Board of Directors and Vice Chairman of the Trust Committee. Our Trust Department is managed under the supervision of four non-bank members of our Board of Directors which meets monthly to review Trust Department policies and procedures.

Our Trust Department is now responsible for over 2,000 accounts with total assets in excess of \$325,000,000.00. Our largest account has assets in excess of \$50,000,000.00. We think the growth of our Trust Department has been more than matched by growth of NBG itself. As of December 31, 1975, we had total assets in excess of \$325,000,000.00.

We are extremely proud of the growth of our bank in assets and deposits. We attribute that growth primarily to energetic management attitude and the attention of top management to the concept of servicing our customers better than our competition.

Insofar as participating in the Teamsters' Pension Fund, we would very much like to share equally with the other banks. If this is not practical under the pension criteria, we would not feel comfortable with less than \$10,000,000.00 since it would be very difficult to demonstrate our capabilities with a smaller amount.

(Exhibit 3)

5. A March 26, 1976 internal NBG memorandum from Raymond H. Sapp, vice president and trust officer, NBG, to Mr. Davis, chairman, trust subcommittee, NBG, states:

In my absence I would like for you to consider my comments in this memo toward the decision at hand. I am strongly in favor of accepting the Teamsters Pension Fund account because:

(1) The opportunity for our Trust Department to manage this size account is certainly a rare occasion. This size of an account is very difficult to obtain and it appears that this account was simply given to us as a result of the influence of Mr. Lance and Mr. Cleveland. I do not think we can afford to pass up the opportunity.

(2) I feel that this account will allow us to obtain additional investment management talent within the trust area (if this is what management would like to do).

(3) I feel we certainly have the personnel and facilities required to handle the account and the

fees from this one account would allow us to improve these talents and facilities, which would further enhance our chances of obtaining profitable estates and other related trust business.

(4) There are certain risks that may come with the account but we are in business to accept responsibilities and risks.

I do not feel we can afford to turn down the account provided we are charging a reasonable fee for our services.

(Exhibit 4)

6. NBG trust records reviewed by the OCC do not reveal any other contacts between Mr. Lance and representatives of the Teamster's Pension Fund pertinent to the acquisition of the management of the Teamster's Pension Fund trust. Filings with OCC provide summary information on NBG's trust department for 1975 and 1976. (Exhibit 5)
7. NBG trust records show other contacts between different NBG officials and representatives of the Teamster's Pension Fund during this period. (Exhibit 6)

Conclusions:

1. Mr. Lance participated to some degree in acquiring the Teamster's Pension Fund account for NBG, but he did not participate in the detailed negotiation of the agreement.
2. Based on the information available to the Office of the Comptroller of the Currency, there appears to be no violation of any statutes or regulations applicable to national banks in connection with NBG's investment management agreement with the Teamster's Pension Fund.

THE CALHOUN FIRST NATIONAL BANK (CALHOUN) -- CORRESPONDENT ACTIVITY AND LANCE RELATED BORROWINGS

Scope of Inquiry: The Office of the Comptroller of the Currency (OCC) reviewed all available documents from Calhoun and OCC Washington and regional office files which related to correspondent balances by Calhoun. In some instances, OCC also reviewed records of other banks to verify correspondent activity.

Summary of Data:

1. Over the period January 1, 1970 to January 23, 1977, Bert Lance and his wife borrowed from time to time from banks with which Calhoun maintained correspondent balances. Those banks included American National Bank of Chattanooga, Tennessee; Fulton National Bank, Atlanta, Georgia; Trust Company of Georgia, Atlanta, Georgia; National City Bank of Rome, Georgia; The Citizens and Southern National Bank, Atlanta, Georgia; Manufacturers Hanover Trust Company, New York, New York; and United American Bank, Knoxville, Tennessee. Based on the account records, examiners prepared charts summarizing monthly loan and correspondent account balances. (Exhibits 1 and 2)
2. The summaries of account activity, based on fifteenth of the month deposit figures and end of the month loan figures, show the following:
 - a. American National Bank of Chattanooga - Calhoun correspondent account declined subsequent to loan to LaBelle Lance by American National.
 - b. Fulton National Bank - Calhoun correspondent account fluctuated from a low of approximately \$300,000 to a high of approximately \$3.6 million over the period July 1973 to June 1975; loans to Mr. Lance January 24 and June 24 had no discernible effect on fluctuation in the correspondent account balances.
 - c. Trust Company of Georgia - Calhoun correspondent account fluctuated from a low of \$1,000 to a high of \$36,000 over the period January 1974 - June 1975; loan to Mr. Lance July 1974 had no discernible effect on fluctuations in the correspondent account balance.

- d. National City Bank of Rome - Calhoun correspondent account declined subsequent to loan to Mr. Lance December 1975.
 - e. The Citizens and Southern National Bank - Calhoun correspondent account fluctuated from a low of \$1,000 to a high of \$323,000 over the period January 1975 - July 1977; loans to Lance October 1975, December 1975, February 1976, April 1976, August 1976, December 1976, and January 1977 had no discernible effect on fluctuations in the correspondent account balance.
 - f. Manufacturers Hanover Trust Company - Calhoun correspondent account fluctuated from a low of \$24,000 to a high of \$139,000 over the period January 1975 - July 1977; loan to Mr. Lance June 1975 had no discernible effect on fluctuations in the correspondent account balance.
3. Calhoun opened a correspondent account at United American Bank, Knoxville, for \$50,000 in April 1977. (Exhibit 2)

Conclusion:

No relationship appears between borrowings by Mr. Lance and correspondent balances maintained by Calhoun. Based on the information currently available to the Office of the Comptroller of the Currency, there appears to be no violation of statutes or regulations applicable to national banks in the establishment or operation of these loan and deposit accounts.

BERT LANCE CAMPAIGN COMMITTEE RELATED ACCOUNTS: OVERDRAFTS AND EXPENSES AT CALHOUN
FIRST NATIONAL BANK (CALHOUN)

Scope of Inquiry: A review was made of the two checking accounts maintained by the "Bert Lance for Governor Campaign" and of various other accounts on the general ledger of Calhoun from August 1973 through December 1974. Testimony of certain Calhoun officials was also taken in August 1975.

Summary of Data: 1. Two checking accounts were established by the Lance campaign committee: the "TBL Operating Account" and "Bert Lance Campaign Committee Account."

2. TBL Operating Account
First entry, a credit of \$11,250 on May 10, 1973.
First overdrafts, \$3,858.54 on January 3, 1974.
The account was continuously overdrawn January 8, 1974 through March 16, 1974 with an overdraft high of \$76,420.37.
The account went into overdraft status again on March 29, 1974, remaining so on a continuous basis to June 29, 1974; high \$24,226.25. A \$426.25 overdraft was carried from July 8, 1974 to December 16, 1974 at which time a zero balance appeared; date of last posting was December 16, 1974. Calhoun records reflect that the use of bank funds (overdraft balances) by the depositor was free of charge until June 1974. Beginning June 1974 to December 31, 1974, Calhoun charged and collected on August 18, 1975 service charges of \$262.77. (Exhibit 1) Rate charged by the bank varied from 12 percent to 13.5 percent. Four checks aggregating \$32,576.56 were drawn and paid on that account during this period to "reimburse" Calhoun for Calhoun-paid campaign expenses incurred by Mr. Lance. Those checks created overdrafts in the TBL operating account in June 1974 when the bank began service charging for granting overdrafts.

3. Bert Lance Campaign Committee Account

First entry, a credit of \$3,705 on April 2, 1974.

First overdraft, \$4,648.42 on May 16, 1974.

The account was continuously overdrawn from May 16, 1974 through June 29, 1974 at which time the overdraft peaked at \$99,529.25. Beginning August 9, 1974 the account was in a continuous overdraft status which accumulated to \$152,161.20 on December 16, 1974. On December 16, 1974 a zero balance appeared (date of last posting). Calhoun records indicate that the depositor was charged overdraft service charges beginning June 1974 through December 1974, which aggregated \$6,230.69;^{1/} collected by Calhoun on September 2, 1974.

(Exhibit 1) Rate charged by Calhoun varied from 12 percent to 13.5 percent.

4. Six checks aggregating \$15,774.85 were drawn and paid on this account during this period of time. The checks "reimbursed" Calhoun for Calhoun-paid campaign expenses incurred by the depositor. The checks were part of the overdraft balances of the Bert Lance Campaign Committee Account.

(Exhibit 1) Two of the checks totaling \$4,907.32 caused the \$4,648.42 overdraft on May 16, 1974. There is no record of the bank applying a service charge on that overdraft.

5. The bank's policy before June 1974 was not to levy interest or service charges on overdrafts of bank employees. The bank did collect a service charge (annual rate 12 percent to 13.5 percent) on overdraft balances June 1974 through December 1974 and collected a late charge (9 percent) on the time lag.

6. During the time accounts were overdrawn, the subject bank held a \$110,000 certificate of deposit (CD) issued to Mr. and Mrs. Bert Lance. From June 1974 through

^{1/} Bank received \$387.84 interest on late payment of these service charges and on service charges collected on August 18, 1975.

September 1974, overdraft balances were in excess of this \$110,000 savings certificate (overdraft balances \$11,695 to \$120,310). From October 1974 through December 16, 1974, overdraft balances attained a low of \$110,330 and a high of \$152,706. Mr. Lance received \$13,453.13 in interest on the CD from July 23, 1973 to December 16, 1974.

(Exhibits 2 and 3)

7. From August 1973 to September 6, 1974, Calhoun paid as bank expenses \$78,380 on behalf of the Lance campaign. The expenses were subsequently reimbursed to Calhoun. Of that amount, Calhoun levied and subsequently collected service charges of \$686 against \$19,019 (Accounts Receivable - General Ledger Account). Calhoun records reflect that this was the only amount of campaign expenses on which there was a service charge. There was a time lag of 2 to 5 months relative to Calhoun being actually reimbursed on other bank-paid expenses.
 - a. From August 2, 1973 through September 6, 1974, Calhoun paid directly \$12,196.46 in expenses incurred by the campaign committee. Those expenses were paid through bank general ledger accounts. (Exhibit 4)
 - b. No interest or fees were collected on the \$5,000 "Advance by Lance Account," a cash item general ledger account which accumulated from February 1974 to September 1974 to a total negative balance of \$9,259.07 on February 15, 1975 -- no interest or service charge paid. (Exhibits 5, 6 and 7)
 - c. On various other expenses paid directly by Calhoun aggregating \$50,101.37 (other than "Accounts Receivable"), the bank received full reimbursement for the expenses paid by the bank but did not collect any interest or fees for the use of the funds. The actual reimbursements lagged from 2 to 5 months from the date the expense was paid by the bank. (Exhibits 4 and 8)

d. On the Accounts Receivable - General Ledger Account, campaign expenses paid directly by the bank totaled \$19,019.99. Those expenses were paid at various times from June 1974 to August 1974. Reimbursement was made on two dates: August 8, 1974 for \$14,246.06 and August 19, 1975 for \$4,773.93. The bank collected \$686.81 service charge fees relative to the use of funds, at an annual rate of 9 percent. (Exhibit 8)

RECAP

	<u>Bank-Paid Expenses</u>	<u>Amount Bank Reimbursed</u>	<u>Service Charges Collected</u>
\$5,000 "Advance Acct."	\$ 9,259.07	\$ 9,259.07	\$ - 0 -
Various General Ledger Accounts	50,101.37	50,101.37	- 0 -
Accounts Receivable Account	<u>19,019.99</u>	<u>19,019.99</u>	<u>686.81</u>
	<u>\$78,380.43</u>	<u>\$78,380.43</u>	<u>\$686.81</u>
	=====	=====	=====

Summary of Accounts

Equip. Rental a/c #560553	\$12,196.46
Computer Forms, etc. #560560	3,690.92
Accts. Rec. -- General Ledger	19,019.99
Misc. -- General Ledger	<u>34,213.00</u>
Sub Total	69,121.36
\$5,000 - Advance Account overdrawn	<u>9,259.07</u>
Total expenses paid by bank	\$78,380.43
Service charges on overdrafts	6,493.46
Other "interest expense" paid by Lance campaign	<u>774.65*</u>
Total funds received by bank from Lance	\$85,648.54

8. There was a time lag between the date the bank paid a "Lance Campaign Expense" and the date it actually was reimbursed. Bank records reveal that Mr. Lance paid "fees" totaling \$774.65 which includes \$487.84 in interest on late payment of overdraft service charges. Allocation of the balance is confined to accounts receivable. Many

* Does not include \$300.00 service charges collected by the bank (sources not disclosed) on accounts receivable.

of those expenses were reimbursed to the bank with the checks either creating an overdraft or drawn against previously overdrawn balances of deposit accounts in the bank. Hence, no actual repayment occurred until the overdraft balance was covered.

9. In testimony on August 29, 1975, Mr. Lance stated that both he and Calhoun's board of directors understood that Mr. Lance was accepting responsibility "that the bank would be totally and completely reimbursed and taken care of about anything that came up as a result of the campaign." Mr. Lance testified that he had executed a written guarantee. On September 6, 1974, he supplied the Comptroller's Office with a copy of an undated, unlimited guarantee to Calhoun. (Exhibit 9)
10. On October 22, 1973, the board of directors of Calhoun accepted a check in the amount of \$5,000 from Mr. Lance to cover any expenses which the bank might have incurred in connection with his campaign up to that time. (Exhibit 6)
11. Minutes at a Calhoun director's meeting on October 22, 1973 state: "specific ledgers are being maintained to show any charges for which management feels management reimbursement should be made." (Exhibit 7)
12. During the examination which commenced on April 28, 1975, the examiners found accounts of Calhoun being used for the benefit of the Lance campaign for Governor.
13. Based on the examination and further investigation on December 2, 1975, the Comptroller and directors of Calhoun entered into a written agreement under the provisions of the Financial Institutions Supervisory Act of 1966 (12 USC 1818(b)) that provided among other things that:
The BANK shall not lend money or otherwise extend credit, or provide services, or participate in

any manner in any campaign for any political office by T. Bertram Lance, or a campaign for political office by any officer, director, or other person associated with the BANK, except as permitted by statute, or by any ruling or regulation promulgated by the Federal Election Commission. All proposed credits, loans or other participation in the campaign for political office by T. Bertram Lance, or any officer, director, or other person associated with the BANK shall have the prior written approval of the REGIONAL ADMINISTRATOR.

14. The Comptroller's Office sent a memorandum to the Department of Justice on December 24, 1975, reciting the facts relating to these overdrafts.
15. On November 22, 1976, the agreement pursuant to the Financial Institutions Supervisory Act of 1966 was terminated.

Conclusion: The Comptroller's Office concluded that both administrative proceedings and a criminal referral were appropriate. Calhoun's board of directors was asked to, and did, on December 2, 1975, enter into a written agreement under the Financial Institutions Supervisory Act of 1966, agreeing, among other things, to cease allowing the campaign committee to overdraw its account. A referral of the matter to the Department of Justice was made on December 24, 1975.

OVERDRAFTS BY BERT LANCE, HIS FAMILY AND RELATIVES AT THE CALHOUN FIRST NATIONAL BANK (CALHOUN)

Scope of Inquiry: All checking accounts of Mr. and Mrs. Lance and their children and other known relatives at Calhoun for the period January 1, 1972 through January 1976 were reviewed.

Summary of Data:

1. Prior to June 1974, Calhoun permitted officers, directors, some employees, and their families to overdraw their accounts without charging interest for the periods during which accounts were overdrawn.
2. Beginning June 1974, interest was charged on such overdrawn accounts based on prime interest rate plus 1 1/2 percent. If the interest charged in a month was less than \$1, fee was waived. All such accounts were charged at the same rate.
3. Calhoun had no written policy concerning the returning of checks when there were insufficient funds in the accounts (NSF checks). According to a bank customer service representative, prior to December 1975 the bank automatically approved NSF checks for all directors, officers, employees and their families. On all others, it depended on loan experience, deposit relationship and bank knowledge of the customer.
4. Commencing in 1972, the Office of the Comptroller of the Currency (OCC) examiners mentioned the overdraft practices in examination reports.
5. During the peak activity period (September 1974 to December 1974), the Mrs. Lance account was overdrawn generally in the \$25,000 to \$110,000 range. Checking accounts of nine relatives revealed overdrafts over the period January 1972 to December 1975. During the peak period of activity for those nine individuals combined (September 1974 to April 1975) overdraft totals were in the \$200,000 to \$450,000 range.
(Exhibit 1)

6. Based on the findings in the report of examination commenced April 28, 1975, the Comptroller on December 2, 1975 entered into a formal written agreement under the Financial Institutions Supervisory Act of 1966 with the directors of Calhoun which provided among other things that:

The BANK shall not carry or maintain any overdrafts on any account of the BANK in excess of thirty (30) calendar days, and shall not permit any overdrafts on any accounts maintained in the BANK by T. Bertram Lance, Tom B. David, Claude Barker David, Mrs. Beverly Banks David, Mrs. Tom B. David, LaBelle Lance, Ruth M. Chance, Ronald F. Chance, Frank Hobgood, Bill Mathews, James B. Langford, and any other members of their families, or any companies, organization or entities controlled by, associated with or related to such persons.

7. In compliance with the agreement, Calhoun during December 1975 established a policy of not paying NSF checks for any director, officer, employee or family member. Subsequent to December 1975, some NSF checks were paid if a covering deposit had been received but not yet posted.
8. All officer, director and related family overdraft advances were reimbursed to Calhoun with interest calculated from June 1974.
9. The formal written agreement under the Financial Institutions Supervisory Act of 1966 was terminated on November 22, 1976.
10. At times the overdrafts of Mr. Lance exceeded the limits placed on extensions of credit to bank executive officers by 12 USC 375a. However, OCC examiners did not list these overdrafts as possible violations of 12 USC 375a in the course of their regular examinations of the bank.

11. The proxy statements filed by Calhoun in connection with its annual meetings in 1974, 1975, and 1976 disclosed, respectively, aggregate extensions of credit to directors, officers, director nominees, 10% security holders, and their associated persons, totaling \$2,054,135.60 or 48.44% of total equity capital in 1973; \$1,446,907.72 or 43.44% of total equity capital in 1974; and \$2,408,982.00 or 73.08% of total equity capital in 1975. It is not clear from the information currently available to OCC whether the overdrafts to Mr. Lance and defined associates (including Mrs. Lance) were part of the aggregate extensions of credit disclosed. Calhoun's filing of the proxy statement for its 1974 annual meeting to be held May 14, 1974 was voluntary because it was not then a "registered" bank under the federal securities laws. On the basis of the information presently available, OCC cannot determine whether the extensions of credit to directors, officers and others disclosed in Calhoun annual meeting proxy statements included those extensions of credit which were in the form of overdrafts.

Conclusion:

The overdrafts permitted to bank directors, officers and their families (including Mr. Lance) by Calhoun constituted unsafe and unsound banking practices. Certain of the overdrafts amounted to extensions of credit to executive officers (including Mr. Lance) in excess of the amounts permissible under 12 USC 375a. During 1976, Calhoun's policies, procedures and practices concerning overdrafts were corrected in keeping with the terms of the formal written agreement executed under the Financial Institutions Supervisory Act of 1966 on December 2, 1975.

BILL L. CAMPBELL: DEFALCATIONS AT THE CALHOUN FIRST NATIONAL BANK (CALHOUN); CAMPBELL
LOANS FROM THE NATIONAL BANK OF GEORGIA (NBG)

Scope of Inquiry: Documents of record in Hartford Indemnity v. Calhoun First National Bank, No. C76-35R (N.D. Ga., filed March 16, 1976), were reviewed. A copy of the FBI report of investigation relative to the defalcations of Bill L. Campbell was obtained and reviewed, as were records of Campbell's deposit account activity in Calhoun. Data compiled from the records of NBG concerning loans to Mr. Campbell on February 18, 1975 and July 14, 1975 were examined. The current president of Calhoun, Y. A. Henderson, was interviewed concerning the matter.

Summary of Data:

1. Mr. Campbell was employed by Calhoun on April 1, 1968 and was serving as vice president and agricultural loan officer when he was dismissed from Calhoun on August 1, 1975 following a referral by Bert Lance to the FBI on July 31, 1975 after Mr. Campbell admitted preparing numerous fictitious and forged notes.
2. The defalcations, which began on February 4, 1971 and, according to the bank, totaled \$994,004.02, were perpetrated through the use of fictitious borrowers and forged notes, as well as through collusion with third party "nominee" borrowers. The latter instances principally involved loans to Mr. Campbell's friends or relatives, who then channeled the proceeds back to Mr. Campbell. After their discovery, the series of embezzlements was the subject of investigations by the FBI and the bank's auditor.
3. On September 8, 1976, Mr. Campbell, who had undergone financial difficulties in his personal farming operations, pleaded guilty in the U.S. District Court for the Northern District of Georgia to a 20-count Information charging violations of 18 USC 656 and 1005. Mr. Campbell was sentenced on October 29, 1976 to 8 years in custody, followed by 5 years probation. In March 1976 Calhoun's

bonding company filed suit seeking a declaration that it was not liable for the bank's \$984,004 bonding claim, since, the insurer alleged, the bank knew of and condoned Mr. Campbell's fraudulent activities substantially before the time he was fired. The bank denied the allegations and filed a counterclaim on the insurance contract. The U.S. District Court dismissed both suits when the parties reached a negotiated settlement for \$450,000.

4. In support of its claim, the bonding company cited a May 1971 report given by a bank employee to Mr. Lance, then president of Calhoun, pointing out that Mr. Campbell's wife had outstanding borrowings from the bank which then exceeded \$258,000. The bonding company further alluded to an incident wherein a Calhoun employee notified Mr. Lance that Mr. Campbell was exceeding his loan authority and was issuing loans to persons with poor or nonexistent credit. The company alleged that Mr. Campbell's name regularly appeared on the bank's daily list of account holders suspected of check kiting.

In response to a written interrogatory, the bank stated that sometime during 1974, Mr. Lance became aware of Mr. Campbell's cash flow problems with his cattle and farming operations. The bank's court filings further stated that managing officers Lance and Henderson had knowledge of Mr. Campbell's indebtedness to the bank, principally in the form of overdrafts, and, to some extent, his indebtedness to others.

5. During the period from January 1, 1972 until August 1, 1975 Mr. Campbell's personal accounts at Calhoun and that of his business (Campbell Farms) were consistently overdrawn. The overdrafts were often substantial, on one date amounting

to \$197,058.16. On February 18, 1975 Mr. Lance, then president of NBG, authorized a \$100,000 unsecured demand loan from NBG to Mr. Campbell at the prime rate, purportedly to enable Mr. Campbell to "pay other loans." All proceeds of this \$100,000 loan were used by Mr. Campbell to reduce an overdraft balance in the Campbell Farms account at Calhoun. The overdraft balance exceeded \$110,000 prior to the reduction made possible by the NBG loan.

6. On July 14, 1975 Mr. Lance authorized NBG to loan Mr. Campbell \$250,000 for the purposes of: (1) repaying the February 18, 1975 \$100,000 loan from NBG; (2) repaying two loans from other lenders of \$50,000 and \$30,000; and (3) carrying his cattle and farming operations for approximately 9 months. Upon receipt of the July 14, 1975 loan proceeds, Mr. Campbell repaid the loans, made payments to other financial institutions, and reversed overdrafts in his personal and business accounts at Calhoun aggregating to \$43,470. After completion of those transactions, approximately \$3,400 of the proceeds from the \$250,000 NBG loan remained available for use in Mr. Campbell's cattle and farming operations.
7. National bank examiners criticized the credit quality of NBG's \$250,000 loan to Mr. Campbell during their next examination of the bank after the loan was made. NBG subsequently realized a \$45,340 loss on Mr. Campbell's loan.

Conclusion: Based on the information available to the Office of the Comptroller of the Currency, there appears to be no violations of the statutes or regulations applicable to national banks except those provisions involved in the criminal proceedings brought against Mr. Campbell.

COMPLIANCE WITH 12 USC 375a -- REPORTING REQUIREMENTS APPLICABLE TO LOANS TO
EXECUTIVE OFFICERS

Scope of Inquiry: All reports of borrowings from other banks filed by Bert Lance with the board of directors of The Calhoun First National Bank (Calhoun) and The National Bank of Georgia (NBG) over the period January 1, 1970 to January 23, 1977 were examined. The reports were compared with reports prepared by bank regulatory agencies (Federal Deposit Insurance Corporation, Federal Reserve, Comptroller of the Currency, and State of Georgia) on extensions of credit to Mr. Lance over the same time period, as those extensions of credit were reflected in the records of the lending banks.

Summary of Data: 1. Whenever an executive officer of a national bank borrows money in excess of certain prescribed amounts (i.e., \$30,000 secured by a first lien on a dwelling which is expected to be owned by the officer and used by him as his residence, \$10,000 to finance the education of the children of the officer, \$5,000 for any other extension of credit), he is required by 12 USC 375a(6) to make a written report to the board of directors of his bank. That report must state the date and amount of each such loan, the security on that loan and the purpose of the loan. (Exhibit 1) 12 USC 375a provides no specific penalties for failure to file reports. When such failures are detected, examiners routinely request that thereports be made and noted in the minutes of a board of directors meeting.

2. The Federal Reserve is authorized by 12 USC 375a(10) to define terms and issue regulations to carry out the purposes of 12 USC 375a. Pursuant to that authority, the Federal Reserve has defined the term "executive officer" as:

The term "executive officer" means every officer of a member bank who participates or has authority

to participate, otherwise than in the capacity of a director, in major policy-making functions of the bank, regardless of whether he has an official title or whether his title contains a designation of assistant and regardless of whether he is serving without salary or other compensation. The chairman of the board, the president, every vice president, the cashier, secretary, and treasurer of a member bank are assumed to be executive officers, unless, by resolution of the board of directors or by the bank's bylaws, any such officer is excluded from participation in major policy-making functions, otherwise than in the capacity of a director of the bank, and he does not actually participate therein. (12 CFR 215.2(b)) (Footnotes omitted)

(Exhibit 2)

3. Under an interagency agreement, the federal bank regulatory agencies prepare during each examination a form showing all direct and indirect liabilities of executive officers of other banks who are borrowing from the bank under examination. Those forms are forwarded to the responsible regulatory agency for its information.
4. From some time prior to 1970 until May 1974, Mr. Lance was president and a director of Calhoun. In May 1974, he became chairman of the board of Calhoun, holding this position until he resigned January 23, 1977. (Exhibit 3) From February 12, 1975 through January 23, 1977, Mr. Lance was president and a director of NBG. (Exhibit 4)
5. Examination of the Articles of Association, bylaws and minutes of the board of directors of Calhoun over the period January 1, 1970 to January 23, 1977 disclosed no resolution of the board, or bylaw, excluding the chairman of the board from participation in major policy-making functions. (Exhibit 5)
6. A table comparing the reports of extensions of credit filed by Mr. Lance to the reports made by the regulatory agencies over the period January 1, 1970 to January 23, 1977 is included as Exhibit 6. The reports of the regulatory agencies from which the table was compiled and the reports made

by Mr. Lance to the board of directors of each bank are included as Exhibits 7 and 8, respectively.

7. The Comptroller's Office believes that Mr. Lance's position, duties and responsibilities during the time period, January 1, 1970 to January 23, 1977, were such as to render him an executive officer of Calhoun and NBG under 12 CFR 215.2(b). Mr. Lance, accordingly, had a responsibility to file the reports required by 12 USC 375a(6).
8. The following schedule summarizes Mr. Lance's compliance with 12 USC 375a(6) as disclosed by available records. The schedule does not necessarily include all loans from all banks made to Mr. Lance in that period. Only those loans reported by regulatory agencies are used.

<u>Loan Recap</u>	<u>NBG*</u>	<u>Calhoun</u>
a. Loans reported as required by 375a	1	4
b. Loans reported to board of directors but information incomplete	2	4
c. Loans reportable but not reported	15	35
d. Insufficient information for OCC to judge whether loan was reportable	3	11

*NBG figures represent loans also included in the Calhoun totals because Mr. Lance had dual reporting responsibility as an executive officer of both banks at the same time.

Conclusion: Mr. Lance did not file with the banks of which he was an executive officer certain reports of personal borrowing as required by statute. If Mr. Lance were still an executive officer with the banks, the normal action of this Office would be to direct that the reports be filed forthwith.

COMPLIANCE WITH 12 CFR 23 -- STATEMENTS OF BUSINESS INTEREST OF DIRECTORS AND
PRINCIPAL OFFICERS OF NATIONAL BANKS

Scope of Inquiry: National Bank of Georgia (NBG) and Calhoun First National Bank (Calhoun) records of Bert Lance's Part 23 filings were compared with information furnished by Mr. Lance to the U. S. Senate Committee on Governmental Affairs at the time of the hearings on his confirmation as Director of the Office of Management and Budget (OMB).

- Summary of Data:
1. Part 23 of 12 CFR (Exhibit 1) requires the filing of a Statement of Interest (Form CC-9030-29) (Exhibit 2) by directors and principal officers of national banks. The regulation requires an initial filing on July 1, 1975 by each individual who held such a position at that time and, thereafter, within 30 days after becoming a director or principal officer of a national bank, or within 30 days after the occurrence of any material change in certain of the information reported.
 2. Mr. Lance was a director and principal officer at Calhoun and NBG at the time 12 CFR 23 went into effect on July 1, 1975 and as such was required to file statements of interest with the banks showing his outside business interests.
 3. Copies of all completed forms filed by Mr. Lance were requested from the two banks. One completed form was found in each bank, both dated June 25, 1975. (Exhibits 3 and 4) In addition, Mr. Lance responded to a memorandum inquiry from NBG December 30, 1976 affirming "no change" in his 1975 filing. (Exhibit 5)
 4. A comparative review (Exhibit 6) of these reported interests was made against those interests Mr. Lance reported to the U. S. Senate Committee on Governmental Affairs at his confirmation hearings for OMB Director on January 17 and 18, 1977.

5. From published information, it appears that Mr. Lance had ten "business interests" (i.e., directorships) which should have been disclosed in Part 23 filings with Calhoun and NBG. The filings made by Mr. Lance did not disclose these interests.

Conclusion:

Mr. Lance's Part 23 filings failed to disclose information on some business interests required to be disclosed by Part 23; a new and complex regulation. On the basis of the information currently available the Office cannot conclude that Mr. Lance knowingly made incomplete and inaccurate filings. If Mr. Lance were still a director of NBG or Calhoun, the Office of the Comptroller of the Currency would routinely request that corrected filings be made.